RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 • REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION
POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

November 16, 1983 **LETTER 874**

Nov. 4 DJIA 1218.29; PTI 1752; A-D Ratio -15.85
Nov. 11 DJIA 1250.20; PTI 1772; A-D Ratio -15.49

THE PICTURE: *Question:* Russell, in the last Letter you made much out of the potential non-confirmations between the D-J Industrial and Transport Averages and also between the Dow and the A-D ratio. What's happened since then—and why?

Answer: Let's start with the "why" first. The direction of the primary trend is all-important in investing and in market analysis. We classify the primary trend in terms of the action of the Averages. In other words, changes in the primary direction of the market are signaled by classic Dow Theory bull or bear signals.

A CONTINUATION of the primary trend is usually signaled by (or implied by) upside or downside non-confirmation on the part of the Averages. During a bull market correction the end of the downswing is often signaled by a non-confirmation on the part of the Industrial or the Transportation Average. A second important non-confirmation (and this was discussed in the last Letter) can be signaled by the Dow or the A-D ratio refusing to agree on the downside.

Question: Why do you put so much stress on these non-confirmations now?

Answer: We are in a confirmed primary bull market. What we've seen since last June is a correction in the secondary issues with considerably less pressure on the blue-chip stocks. But if the bull market is still intact (and I believe it is) then in due time the upward force will re-assert itself. At that time, the Averages and the great majority of stocks will move higher and we will see new highs in the Averages and the majority of stocks. Even those secondary issues that have been battered during this correction will come back to life. In fact, we could witness many of today's hard-hit secondaries double and triple before this bull market is over.

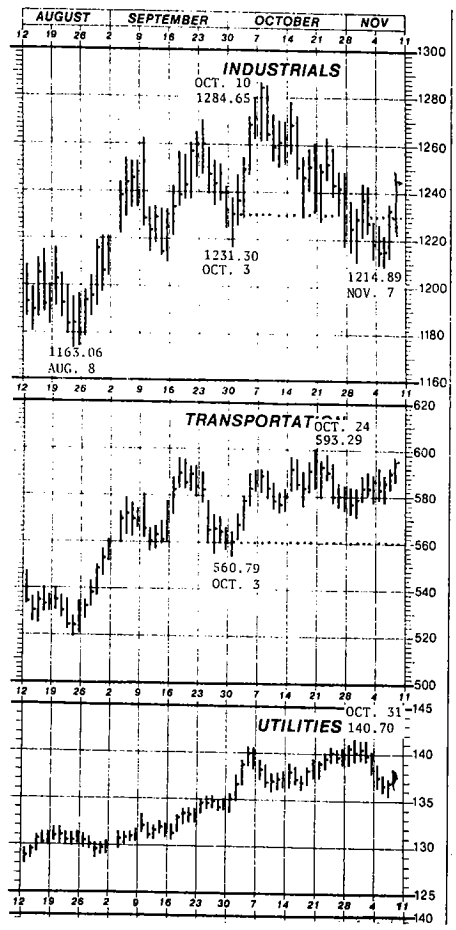
That then is the importance of the primary bull market concept. Or to put it another way, the longer the bull market is held back by a correction or perhaps a series of adverse new events, the greater the potential during the next upward swing in the bull market. Thus the prime "life insurance" for the investor throughout a bull market is the certain knowledge that the bullish forces are INTACT.

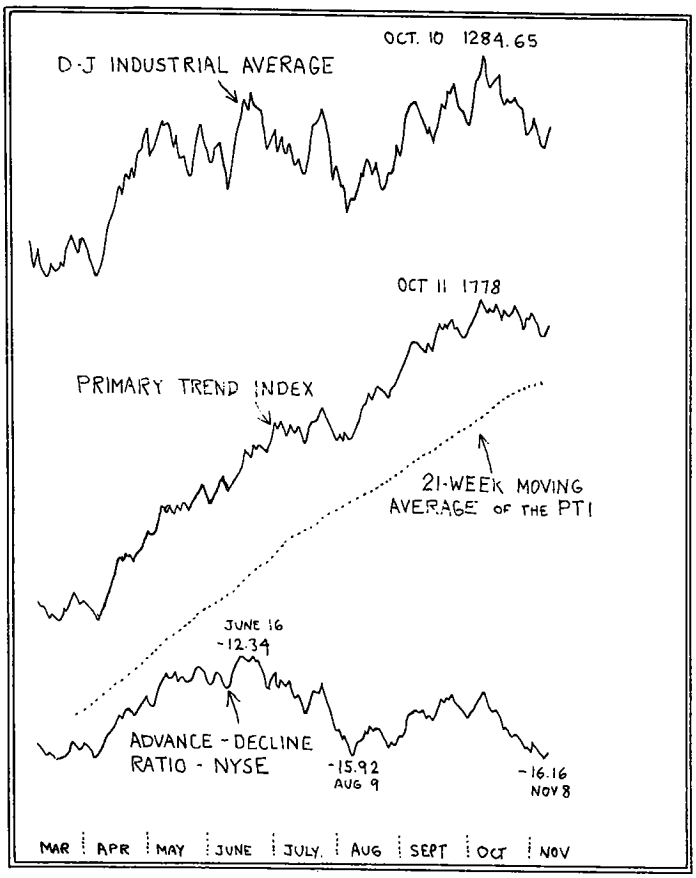
Question: Russell, will you apply that line of reasoning to the current market situation?

Answer: Yes, and I might add that this is something that is always on my mind. For instance, I know that if this was a bear market we would not be seeing important downside non-confirmations. On the contrary, we would see the Averages and the A-D ratio and most stocks confirming on the downside. In due time, EVERYTHING BREAKS DOWN during a primary bear market. We might see some resistance here and there, but over, say a five-month period, almost all our indicators would be at new lows. THE FACT THAT THIS IS NOT HAPPENING HERE IN 1983 IS VERY SIGNIFICANT. In other words, we are *not getting downside confirmations* and it has been five months since the June 16 high in the A-D ratio. Instead, we are getting resistance in the form of downside non-confirmations, which implies that in due time the bull forces will resume on the upside—with a vengeance.

Question: How does the short interest fit in to your bull market scenario?

Answer: I've written about this at length in previous Letters, but to repeat—what we have here is a record short interest which is locked into a primary bull market situation. These shorts are important because in time they will all have to cover. That covering (buying) will provide fuel for the bull market. But more important even than the potential buying power of a record short interest is the fact that a record short interest indicates that there is a huge segment of traders (all short sellers are




D-J INDUSTRIAL AVERAGE
OCT. 10 1284.65
OCT 11 1778
PRIMARY TREND INDEX
21-WEEK MOVING AVERAGE OF THE PTI
JUNE 16 -12.34
ADVANCE - DECLINE RATIO - NYSE
-15.92 AUG 9
-16.16 NOV 8
MAR APR MAY JUNE JULY AUG SEPT OCT NOV

traders) that refuse to believe that we are in a primary bull market. These short sellers are not simply mouthing their disbelief in the bull market, they are putting their hard cash down on the line–AGAINST THE BULL!

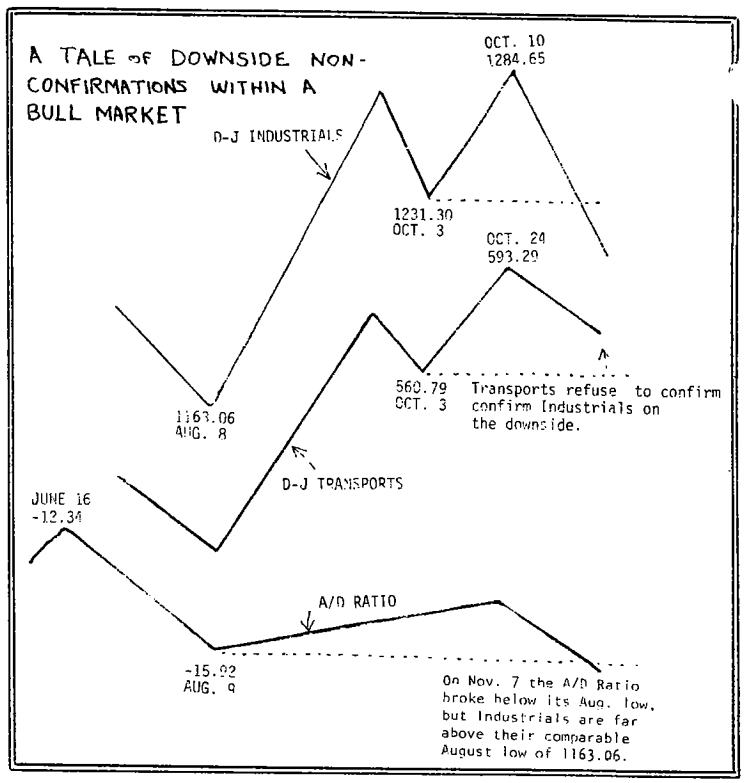
Now time is always AGAINST the short seller. It is against the short seller because the short seller pays out dividends and he also loses whatever return he may have received if he had placed the same money in dividend paying stocks or notes or bonds. So the short seller gets nervous when a market moves sideways or declines only slightly. He needs real downside action. That's the only way the short makes money, and the quicker the downside action the better (all short sale profits are taxed, by the way, as income rather than capital gains).

Question: OK, you've talked about the primary trend and you've talked about the shorts. How about the market action itself?

Answer: Technically, the market action since mid-June has been about as fascinating as any I've seen in recent years. Here are some items worth noting:

(1) On the 21 trading days ending November 1, the A-D ratio on the NYSE was down on 18 days or 85% of the time! That is what I term "extraordinary selling" and it indicates a high degree of pessimism. In fact, this kind of selling (particularly when associated with downside non-confirmations) is often indicative of a bottom or near-bottom.

But what is so interesting is that despite the A-D being down on an incredible 18 out of 21 trading days, the D-J Averages refused to confirm on the downside. The Industrials, of course, broke below their October 3 low but Transports failed by a wide


A TALE of DOWNSIDE NON-CONFIRMATIONS WITHIN A BULL MARKET
D-J INDUSTRIALS
OCT. 10 1284.65
1231.30 OCT. 3
OCT. 24 593.29
560.79 OCT. 3
Transports refuse to confirm Industrials on the downside.
1163.06 AUG. 8
D-J TRANSPORTS
JUNE 16 -12.34
A/D RATIO
-15.92 AUG. 9
On Nov. 7 the A/D Ratio broke below its Aug. low, but Industrials are far above their comparable August low of 1163.06.

margin to confirm (while the Utility Average held near a 14 year high). Thus, we had over three weeks of steady selling with no breakdown in the price structure of the Averages. Put another way, the bears attacked the market with all their might–but failed to rupture the bullish pattern (in terms of the pattern of the Averages). This situation is illustrated on the page 2 chart.

Let's put it another way. The page 2 chart shows that on October 10 the D-J Industrials broke below their October 3 low of 1231.30–but the Transports refused to confirm. Now consider this: on November 7 the A-D ratio dropped below its August 9 low–but the Dow refused by a wide margin to close below its own August 8 low of 1163.06. On both counts, the market picture is one of DOWNSIDE RESISTANCE. And I've said many times before, if the market won't go down, if the indicators refuse to confirm on the downside, then we are nearing the time when the market is going to go up (i.e., we are nearing the period when the primary bull forces are going to re-assert themselves).

(2) Another important consideration: despite the declining A-D ratio (a decline that began August 16) the number of daily new lows on the NYSE has held incredibly low. Bear markets usually set off dramatic weakness after many months of decline. But it has now been five months since the peak in the A-D ratio, and what have we seen in daily new lows? The greatest number of new lows appeared on October 28, at which time we had a mere 31 new lows! Even when the A-D ratio broke below its August low the daily new lows failed to expand. That's hardly bearish pressure on the market!

(3) On October 31 the D-J Utility Average closed at 140.70 --its highest level since 1969! In the last thirty years the Utility Average has never topped out after the other Averages. In fact, the Utility Average has topped out roughly four months BEFORE the other Averages. Thus, the early-November bull mar-

ket high in the D-J Utility Average must be viewed as a big plus for the market.

(4) During bear markets it is unusual to see the major averages with gains for the year at year's end. Considering that the A-D ratio hit its 1983 peak on June 16, the major Average (if this was a bear market) should now be showing losses for the year. But that hasn't happened. As of November 1 the D-J Industrials were up 17% for the year, the D-J Transports were up 28%, the D-J Utilities were up 18%, the S & P 500 was up 16%, the Amex index was up 24%, the NASDAQ was up 18% and the Value Line Composite was up 19%. These are hardly the kind of statistics one would expect in a bear market. No, they are bull market statistics and all the more remarkable, as I say, since the A-D hit its 1983 peak back in June.

(5) My Primary Trend Index (PTI) measures the build-up or decline in the technical strength of the stock market. The PTI struck a record high of 1778 on October 10. It then corrected 28 points to 1750 on October 7. As this is written the PTI is at 1772. If this market is losing technical strength, it's not being reflected in the powerful action of the PTI.

(6) By early November, despite the double non-confirmations on the downside, investor and trader sentiment had turned quite bearish. Last week, at the New Orleans conference, I heard speaker after speaker offer bearish predictions on the market. We were assured, over and over again, that the stock market was headed down, down, down. This is the kind of pessimistic background that is needed for a reassertion of the primary bull trend.

Question: All very interesting, Russell, but what happens if your indicators start confirming on the downside?

Answer: An excellent question, and one that should be addressed. There are no geniuses in this business and no infallible scenarios. In the foregoing pages, I have presented my thoughts and opinions on the market based on what has actually happened up to now. But yes, suppose all this changes, then what?

Anyone in this business who does not have a picture of what must happen in order for him to change his mind–is looking for trouble. So here is what I would want to see in order to turn cautious to bearish.

(1) I would want to see the D-J Transportation Average totally change character, turn down and crack below its October 3 low of 560.79. If Transports did that, they would confirm the Industrial break below 1231.30, and that would obviously NOT be a good sign.

(2) On August 7 the A-D ratio broke below its August low. I would NOT like to see the D-J Industrial Average confirm the A-D rupture. To confirm, the Industrial Average would have to break below 1163.06.

So those are the two items which would probably cause me to declare a "Get out of the market" signal. The action of items 1 and 2 as outlined above would be highly bearish and even throw doubts on the primary direction of the stock market.

Question: Russell, look into your crystal ball and tell us some of the things you see coming up during 1984.

Answer: One thing I see happening now (and I've been talking about this since 1980) is an extended period of no-inflation. I'm not saying that the nation is going to sink into real deflation, but I do see inflation as pretty much over for the foreseeable future. If there's any doubt about that statement, just look at gold and the precious metals. They are telling us in no uncertain terms that inflation is "last year's worry."

Next (and Lippman has been writing about this in the Defense Section), I see a huge new build-up arriving on the defense scene. Aside from our current "conventional" military set-up, there's a whole new world coming in the military, and the new state-of-the-art weapons are going to cost big bucks–very big bucks.

And the Pentagon knows it. On October 20 it was announced that Defense Secretary Weinberger is asking for a total of $271 billion in 1983, $322 billion in 1985, $357 billion in 1986, $389 billion in 1987, $425 billion in 1988 and $464 billion in 1989! I think his requests are going to prove conservative as the US races to stay even (or catch up) with Russia!

Next, I see a national sales tax coming after the Presidential election. With huge Government deficits already built in, the US will need *massive* tax takes. The only place to get that tax money is via a value-added tax (Europe already has this). In the current $3.5 trillion economy, roughly $1.6 to $2.6 trillion is in consumer consumption. If the Government hits this consumption with a 5% tax, it will bring in $100 billion. That's the kind of money the US will need, and that's why I feel reasonably certain that Congress is going to go for a national tax modeled on that European value-added tax (for the public, you can be sure that the value-added tax will have appropriate exemptions plus tax credits for the poor).

Question: How will "the end of inflation" affect the economy?

Answer: I think we are going to see a rather difficult period of adjustment. Housing is liable to remain soft, speculation in "things" will die down, money and income will have a new meaning, bonds will be back in favor, selected stocks will do well, and the bull market on Wall Street will continue, but it will be a more selective bull market.

In the economy there will be some hardships as business learns to live without inflation and rising inventory valuation. Earnings for corporations will be real earnings and the nation's business will get leaner and meaner–and healthier. Raises for working people will be much harder to come by, and the "automatic raise" and the "cost-of-living raise" will run into trouble. Two generations that have never seen no-inflation will have to adjust to something very new–and the adjustment will not be without pain.

Question: Do you think the loan situation with the "Less-Developed" nations can ever be worked out–or is a fiasco coming?

Answer: The loan situation in the LDC nations has precipitated the worst financial crisis to face the banks since the Great Depression. The single most important factor for the debtor nations is LIBOR (the London Inter-Bank Rate). Interest payments are eating up all the earnings and growth of the debtor nations and the pressure to (1) get US interest rates down and (2) get the value of the dollar down are intense! Despite huge

US deficits and a huge US balance of payments deficit., EVERYONE wants dollars (foreign assets in the US increased by $88 billion last year, up from $54 billion two years ago). So with everyone wanting dollars, the dollar tends to *stay strong* (and if you own gold, brother, you know that's a fact).

The banks are boosting their reserves for bad debts and ultimately I believe part of the loans will be written off the books and part will be cancelled. The debts are just too big to be paid off, and nobody's even thinking of trying to pay them off. The struggle is just with the interest payments.

From the US standpoint, Fed policy now is to raise interest rates whenever the economy appears to be heating up. The US has now achieved economic balance. It can run massive budget and trade deficits, keep a sound (and much wanted) dollar stable, and keep the economy going at a relatively high level. This policy will not be changed. Why? Because it works!

Question: Russell, in the intervening Letter you changed your stance on the defense stocks. How can you justify this in the face of what you say will be the biggest military build-up in US history?

Answer: One of the oldest rules in investing is "Don't let a profit turn into a loss." The defense list of stocks was up 44% at the high and of late it started turning into a loss. I don't stand on pride of opinion. I also know that *preservation of capital* is a prime rule in investing. On that basis, I'm letting the defense stock ACTION tell me what to do. The action of the defense issues (like all the technology stocks) lately has been poor. That's the operative *fact.* And on the basis of a profit turning into a loss, I said "cut back or sell out."

Question: How do you explain the "big stocks" doing well while the secondary stocks sag?

Answer: My explanation is in a single word, "income." With debts high and going higher, everyone and every corporation wants income. The utilities produce dividend income and they are acting well. The big consumer-oriented stocks and major oils produce dividends and income and they're holding. I feel that consciously or unconsciously this market has turned from speculation to dividends (and I mean safe and rising dividends), and that explains the division in the market.

Question: What about your PTI, how is it doing?

Answer: The PTI has been amazingly strong. As this is written, the PTI is well above its 21-week MA and only points below its record high of 1778 recorded on November 10. I don't apologize or try to explain away the PTI. Its readings are automatic, and I just follow them. The PTI is saying that the market is much stronger than it appears on the surface.

INVESTMENT POSITION: My work continues to say that we are in a primary bull market. On that basis, I am of the opinion that all the previously recommended no-load funds should be held.

In order to trade successfully in a bull market one must make two pin-point decisions: (1) the first to sell out near the top of a rally, and (2) the second to buy back near the bottom of a reaction. In my experience, few amateurs and not too many professionals can do this and do it right. Therefore, correct procedure with the funds is to sit tight and allow the underlying bull forces to work for you (and, of course, this only happens through time–time is on the side of the investor during a bull market). Note: when I think the bull market is over I will recommend cleaning out any and all stocks and funds.

NOTICE: I try never to fight the trend. The fact is that I have not received enough interest on the Defense Section. I have received Letters complaining that the defense section has taken away from the investment advisory part of the Letter. A number of subscribers have stated that they want more in the Notes & Quotes section rather than the Defense Section. And on top of that, I did not get enough positive comments about the Defense Section. So, with this Letter I have decided to end the Defense Section and go back to my original format.

But I want to make some final comments. I was a bombardier with the Twelfth Air Force in Italy during World War II, and at that time I had plenty of time to study war, death and the enemy. During mid-1942 it appeared very possible (almost likely) that the Allies would lose the war to Germany and Italy. The Germans were winning in North Africa, and the possibility of an Axis victory over the Allies was in balance.

I think the situation today is as dangerous to the Free World as it was during mid-1942. This piece was clipped from a recent newspaper, and if it's true, the US and its allies will be in great danger within a few years. Many informed persons believe that he who controls outer space controls the world. And it is probably for this reason that the Russians are rushing headlong into space and space research.

Special USA TODAY

STANFORD, Calif. — The Soviet Union will be supreme in space by the time the USA launches a robot spacecraft to investigate Venus in 1988, a top NASA official said Sunday.

Dr. David Morrison, chairman of the National Aeronautics and Space Administration's Solar System Exploration Committee, said the USA has the "serious prospect of falling behind Russia and losing leadership" in space exploration.

He blames "our inattention and inactivity in the last few years" for the problem.

Voyager 1, this country's last space explorer, was launched Sept. 5, 1977. The next isn't set until 1988, to make radar maps of Venus.

In contrast to the decade of inactivity, the Soviets "have just put two quite capable spacecraft into orbit around Venus, and they're going to be sending another orbiter to Mars in about three years," said Morrison of the University of Hawaii.

For many years (as veteran subscribers know) I felt that inflation was the number one danger to the US. Around 1980 I wrote that I felt the forces of inflation and deflation were about equal, this based on my premise that the unbelievable growth of debt–and the cost of servicing that debt–was basically deflationary. This deflationary force was (in my opinion) evenly matched with inflation around 1980. Since then, gold (the barometer of inflation/deflation) has told the story.

At this point I believe that the rise in Russian power and military capabilities become the number one threat to the US and the Free World. Our main defense against this is knowledge and preparation. It is to that end that I included the Defense Section, and I hope that effort made some lasting impression on my subscribers.

THE DOLLAR: Everyone is amazed at the stubborn and persistent strength in the dollar. By all accounts, the dollar was to have topped out months ago and the major foreign currencies

were to have exploded. But it hasn't happened that way. Why?

Excellent comments on the subject were expressed in an interview by San Diego editor, Don Bauder. The interview was with Heinz Gundlach, a Wall Street banker who spends much of his time in San Diego. I include part of that fascinating interview.

"The interest rate situation (the fact that inflation-adjusted interest rates are at an all-time high) is only part of the story," Gundlach said in an interview. "What is hurting the other currencies is political risk; inflation; declining purchasing power and the European outlook, in addition to the high U.S. real (inflation-adjusted) interest rates," he said.

"The U.S. is the only safe place. We have a bright outlook. Europe does not," said Gundlach, just back from a three-month European swing, in which he talked with numerous European bankers.

The U.S. deficits are bad, but as a percentage of our overall economy (our deficit is between 5 and 6 percent of gross national product, or total annual economic output), "our deficit looks good in comparison with the same ratios for European nations," he said.

The decline of the emerging nations hurts European countries much more than it does us, because they depend on them so much for their trade. Also, most world trade is settled in U.S. dollars; that gives us a leg up. "For these European countries, their trade deficit or balance of payment deficit is equally bad or worse than their budget deficit," he said.

"Europe is very, very depressing. The Ruhr Valley, the center of heavy industry, is in such bad shape, and the people only turn to Uncle Sam for help. There is no entrepreneurial spirit, no venture capital; the government says it will keep these old industries going, and therefore there never will be the entrepreneurial spirit.

"The social welfare state has decimated Europe. Sweden was one of the wealthiest nations, and now it's one of the poorer ones. The same thing happened to England, France and Germany. Only Switzerland has escaped socialism. Socialism has made people lazy; it has raised the operating costs so high that a company can't compete – it can't even close plants," he said.

People have little hope – "and their currencies reflect the malaise," he said.

It is time to deal with the bad loans to emerging nations, he said. "In the 1970s these banks took in the petrodollars and then tried to grow fast – they were knocking on these countries' doors, offering loans on the fallacious notion that a country cannot default. That's nonsense. Germany defaulted in the early 1920s and many other nations have defaulted throughout history," he said.

"The bankers have become the lenders to the lesser credits. They lend to the institutions not sound enough to be able to sell commercial paper. I can remember when (New York's) Morgan Guaranty was a blue chip bank. But now more than half its loans are overseas and it is not blue chip – it's a lower quality bank, like Citicorp, which I never considered blue chip," he said.

He opposes the U.S. supporting the International Monetary Fund (IMF) to bail out these banks. The IMF is imposing too-restrictive conditions on the debtor nations, breeding revolution.

Also, the managements of the banks should suffer for their sins. He feels the banks should start writing off the loans now. They should grant the nations 20 or 30 years to pay off the loans at low interest, such as 6 percent. As a result, the banks would be reporting big losses for several years, "but that can be done. The German banks have been reporting no earnings for three years; they wrote off their worthless Polish loans," said Gundlach, who was reared in Karlsruhe in southern Germany, where Mann now lives. Gundlach came to the U.S. in the early 1960s.

NOTES & QUOTES: Notable quotes: I'm quoting two guys who have been around a long time. The first is Vern Myers. Vern (once a big gold bull) turned properly bearish on gold a few years ago. He now is in the forefront of the deflationists. Says Vern in his latest report, ". . . have we not already seen enough to recognize that we entered a period of contraction? How long will it take for gold fanatics to understand that the times have changed? That the issue is no longer hedging against inflation? And if they admit that hedging against inflation is out of fashion, they will then perceive the direction of the price of gold. When it is finally seen that what we have to protect ourselves against is deflation rather than inflation, it will be too late for many." (Myers Finance and Energy, Peyton Building, Spokane, WA 99201).

And here's Bob Nurock of Investors Analysis, Paoli, PA. "I believe the second leg of the bull market, which is starting now, will be almost as strong and broad as the first leg and not a narrowly selective advance . . . . I think the market is going to surprise the experts by rising higher and faster than they expect." (Bob, formerly with Merrill Lynch, is one of the really intelligent panelists on Wall Street Week).

* *

My friend, Denis Marlow, puts out a most informative commodity letter, Marlow's Professional Trader, (1-800/648-4515). One of the features is his "Tips from the Top" column. This is one from the Oct. 14 report, and I thought it was interesting enough to include here. The Friday close relates to stocks as much as commodities, and I have, personally, always considered the Friday close for the Averages as the most important close of the week.

TIPS FROM THE TOP

Be aware that the most significant price of the week is the Friday close. Major political, economic and weather events have a better probability of happening over the 65-hour period from Friday's close to Monday's opening. Many of these are orchestrated to occur on the weekend. When the floor traders leave on Friday afternoon, they want to be positioned both in the right direction and at a price that in their judgement has value. London (which trades all the international commodities) will open on Monday morning while they are still asleep. This could knock them out of the box if they are poorly positioned. A three-day holiday weekend is even more significant because there is an additional day that traders are locked into their positions.

Many of the best traders feel that a weekly continuation chart is more meaningful than a daily one. I agree. A weekly continuation chart emphasizes the Friday close. So should you. If you are long, look for a higher close the following week. Visa versa, if you are short. Much of the back-and-forth action that takes place during the week is designed to part you from your positions at an unfavorable price. The most recent Friday close is a very important number for you to look at until the following Friday close is established. You can generally feel comfortable if that price is not violated. I suggest you prove this to yourself by examining some weekly charts. A comfortable speculator is a better speculator.

* *

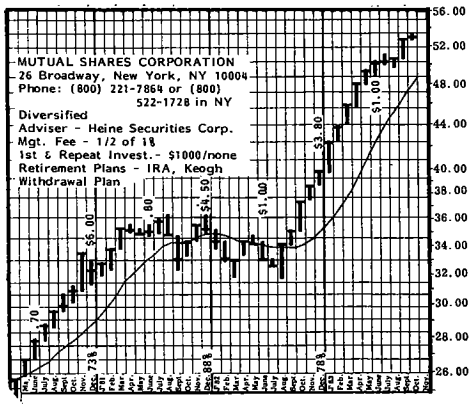
Anyone who has ever had children must wonder (as he lovingly scrutinizes these innocent babes) what possesses grown men to blow each other up, maim each other, shoot each other and otherwise maim someone else's grown "child." Considering that man is "civilized." This killing of his own has always struck me as the height of idiocy (actually, idiots don't kill each other). In the November, 1983 issue of Natural History there appeared an article by Matt Cargill, and I include an edifying quote from that article:

> Then why don't other hunting animals murder *their* friends and relations for sport? The great ethologist Konrad Lorenz had an answer. In other predators, whose killing machinery evolved over millions of years, natural selection against those who used their weapons on mates or offspring produced an inborn inhibition against slaying one's own kind. But our weapons were invented, not evolved—and so we haven't had time to acquire any

> inhibiting instincts. When a defeated wolf goes belly up, the victor turns away with instinctive chivalry; when a defeated man goes belly up, the victor spears him in the belly.

MUTUAL FUNDS: A number of subscribers have written to remind me that Fidelity's Magellan Fund charges a 3% load charge and thus it is technically not a no-load fund. True, and I apologize. Nevertheless, I like Magellan very much and continue to recommend it.

Another huge successful fund is Mutual Shares, whose chart is shown below. This excellent fund specializes in undervalued stocks, and so far they have been very good at picking them, as the chart indicates. This chart is courtesy of Growth Fund Guide.


MUTUAL SHARES CORPORATION
26 Broadway, New York, NY 10004
Phone: (800) 221-7864 or (800) 522-1728 in NY
Diversified
Adviser - Heine Securities Corp.
Mgt. Fee - 1/2 of 1%
1st & Repeat Invest.- $1000/none
Retirement Plans - IRA, Keogh
Withdrawal Plan

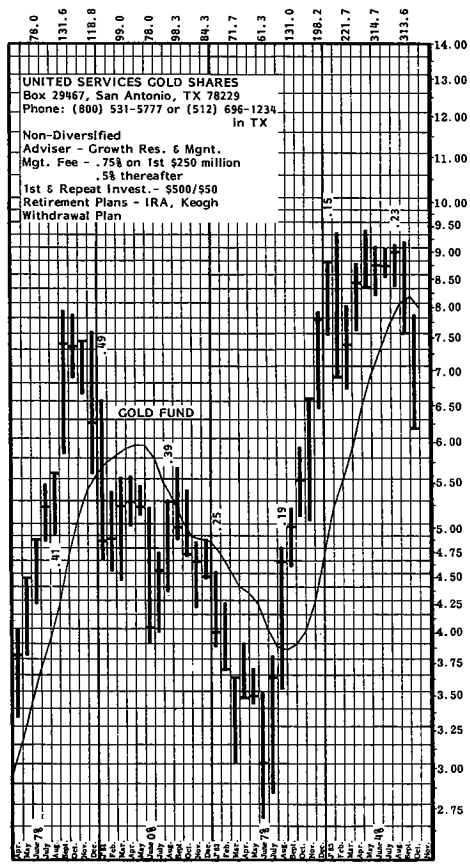
FOR NEW YORK SUBSCRIBERS: In accordance with the New York Investment Advisers Act, we have filed our Investment Adviser Statement and New York subscribers may obtain a copy of same upon request. A fee of $14 will be charged for Xerox costs.

GOLD: At the big New Orleans conference (NCMR) most of the hard money boys remained stubbornly bullish on gold and the precious metals. Many felt that the gold market is forming a major bottom here. I reminded them (in my speech) that just one year ago I stated that gold was in a primary bear market. "Nothing has changed," I added, "and I go on the thesis that the trend CONTINUES until proved otherwise. As far as my studies are concerned, the precious metals are STILL in a bear market."

Most of the "new bull market for gold" predictions are based on the idea that inflation is a sure thing for 1984, '85 and '86. In my experience, NOTHING is a sure thing in the economy or the markets. My feeling is that the liquidation or the paying down of debts will be deflationary. Furthermore, I feel that the continuing build-up of US and world debts is basically deflationary (we are past the points where debt build-up is inflationary–the servicing charges for the world's debt is now so huge that it threatens to swallow up everything in sight).

I said some months ago that either gold bullion is going to rise to meet the sky-high prices of gold shares–or the shares are going to come down to meet the sinking price of the metal. I was of the opinion that the shares would head for the basement, and that the dominant trend was the bullion. So far, that view has proved correct.

I include here a monthly chart of the *United Services Gold Shares Fund,* and I use this fund as a proxy for a gold average (chart by Growth Fund Guide, Box 6600, Rapid City, SD 59909). Note that the fund went into a nine-month high-level consolidation starting on December 2, 1982. In September, 1983 the fund broke below its 10-month moving average. In October the Fund's price movement (during the entire month) fluctuated BELOW the moving average–this for the first time since the rise began. I take this as very bearish action, and just as September's action constituted a bear signal for the shares, October's action was a confirmation of that bear signal.


UNITED SERVICES GOLD SHARES
Box 29467, San Antonio, TX 78229
Phone: (800) 531-5777 or (512) 696-1234 in TX
Non-Diversified
Adviser - Growth Res. & Mgmt.
Mgt. Fee - .75% on 1st $250 million
.5% thereafter
1st & Repeat Invest.- $500/$50
Retirement Plans - IRA, Keogh
Withdrawal Plan
GOLD FUND

LATE NOTES: From a bull market standpoint, what I'd "like to see" would be a period of low volume backing-and-filling, maybe lasting well into the first quarter of 1984. It seems to me, with the double non-confirmations described earlier in this Letter, that the market is in the process of forming a good base. So ideally, I'd like to see the short interest continue it's extraordinary rise–while at the same time I'd like to see volume simmer down (maybe to 60 to 70 million shares a day). This would send the short interest ratio even farther through the roof. Remember, with 182 million shorts on the NYSE, any day that total NYSE volume drops to 91 million shares sees the short interest ratio at 2.0. On, say a 70 million share day, the SI ratio would zoom to a huge 2.6. In other words, the best thing we could now see is a new record high in the short interest and low volume on the NYSE. So if the market doesn't take off on the upside right away–sit tight with your no-load funds. The longer the bull is restrained, the bigger will be the ultimate move on the upside.

By the way, it is most encouraging (and rather incredible) that almost no one has recognized the double downside non-confirmations that I have described in both the last Letter and this one!

To sum up, we've got a confirmed primary bull market, we've got a record short interest built into this bull market, and we've got a double downside non-confirmation. In my opinion, the bears are trapped, and they will, in due time, be driven to the wall by the bull.

NEXT MAILING: Nov. 30